
Introduced by Senator De León

February 10, 2011

An act relating to individual retirement accounts.

LEGISLATIVE COUNSEL'S DIGEST

SB 262, as introduced, De León. Individual retirement accounts.

Existing federal law provides for tax-qualified retirement plans and individual retirement accounts or individual retirement annuities by which private citizens may save money for retirement.

This bill would make findings and declarations of the Legislature that conclude that the state should create an additional retirement savings program for its workers to supplement existing savings options.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. The Legislature finds and declares the following:
2 (a) Currently, 6 million Californians, 43 percent of the state's
3 workforce, work at a job that does not offer them a pension or
4 retirement savings plan to supplement social security.
5 (b) Social security payments alone, which average \$1,081 per
6 month in California, will not sustain Californians in their
7 retirement. Seniors without savings may be more likely to require
8 government assistance with housing, medical care, and other
9 necessities.
10 (c) Though investments in savings accounts have increased over
11 time, investments from low-income small businesses, or

1 short-tenured and transient employees, are strikingly low and have
2 not increased at the same rate.

3 (d) Nationally, two out of three low-wage workers lack access
4 to an employer-sponsored retirement plan, while only one in four
5 high-wage workers do. Nearly 65 percent of low-income workers,
6 those earning less than \$40,000 per year, do not participate in
7 employer-sponsored retirement plans, according to the
8 Congressional Budget Office.

9 (e) Only 26 percent of full-time, full-year private sector workers
10 in businesses with fewer than 25 employees participated in a
11 pension plan in 2004, compared with 69 percent of those employed
12 by companies with 500 or more employees. Complexity and cost
13 of administering retirement plans may prevent small companies,
14 in comparison to larger corporations, from creating retirement
15 plans for their employees.

16 (f) Low investment participation rates in retirement plans can
17 also be attributed to a worker losing access to a plan after moving
18 into a new job with another business.

19 (g) Workers today are spending more than they are saving,
20 relying more on credit, and thus accruing debt and putting their
21 future financial security at risk. Nationally, the personal savings
22 rate for individuals has fallen to 0.5 percent of income for 2007.
23 At this rate, even with social security benefits, Californians will
24 not be able to afford retirement.

25 (h) California workers without access to an employer-sponsored
26 retirement plan need a seamless, lifelong savings system, providing
27 them with the opportunity to build their assets and helping them
28 to attain their future financial stability through a secure, portable
29 savings account.

30 (i) Individual retirement accounts (IRAs) are fully portable and
31 not tied to an employer, and an automatic enrollment option
32 significantly increases employee participation rates in retirement
33 savings plans.

34 (j) Providing California workers with a guaranteed retirement
35 income to supplement social security, traditionally funded by stable
36 employer contributions via a defined benefit, employer-based
37 pension plan, is optimal to ensure that workers accumulate the
38 benefits they need for a secure retirement. California must continue
39 to explore guaranteed replacement income programs, such as
40 defined benefit plans, for working Californians. Establishing and

1 offering a defined benefit plan would require additional study to
2 research and address the complex policies and regulatory approvals
3 necessary for creation and implementation, and would be an
4 important step toward ensuring the retirement security for all
5 working Californians.

6 (k) Though employer-sponsored guaranteed retirement income
7 programs are valuable savings tools for workers, given the
8 changing needs and work habits of California's workers, they alone
9 are insufficient to afford workers a secure retirement. California
10 workers need additional retirement savings options to ensure their
11 retirement security.

12 (l) Private individuals have limited access to attractive financial
13 products that allow them to convert their savings into secure,
14 lifelong retirement income.

15 (m) In creating an additional retirement savings program for its
16 workers, California should supplement existing savings options,
17 thus assisting California's working men and women to save for
18 retirement.